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Remarks

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Prepared for delivery by Richard Lyng, deputy secretary, U.S. Department of Agriculture before the Second European Agricultural Outlook Conference, London, England, Feb. 2.

Some distant day in the years to come a wise historian will discover that the relationships which developed during the final half of the twentieth century were vastly affected by the fact that almost the only way one could travel to Europe from America was to fly overnight. This historian will quantify, as only wise historians can, the errors which were caused by jet lag fatigue, and he or she will speculate upon the course of history if people had been sensible enough to fly only when the birds fly.

Well, I had a pleasant, uneventful flight from Washington last night, and I will feel much better in a day or two, thank you. If I were not the speaker, I would surely nap a bit during this talk, so I suggest that any of you who need to nap please feel free to do so.

I am pleased and honored to be given this opportunity to take part in this distinguished outlook conference. This year, 1983, following two years of record production and resulting burdensome stocks, brings new challenges and new farm programs into action, new schemes to resolve serious farm problems.

Satchel Paige, who may have been the finest baseball pitcher of all time, said, "Don't look back. Something may be gaining on you!"

There's wisdom in that, no doubt. But to explain where I think we are heading, it seems necessary to look back, to review briefly the changes in agriculture and what they have brought.

Back when the United States was founded, a relatively short time ago compared to many nations represented here, the country was almost totally agrarian. Some 90 percent of the people were farmers. The entire structure of the economy was geared toward agriculture. Most of the tools on the farm were little changed from those in use for more than 2,000 years. Grain was planted and harvested by hand; farmers' daily toil was eased only if they had an ox to pull the plow.

In the mid-1800's machines were invented which greatly changed agriculture—the cotton gin, threshing machines and the mechanical reaper. Hand power gave way to horse power. But change came slowly until the beginning of the American Civil War in 1861. Then the demand for food to feed the troops and the shortage of labor as men joined the army led farmers to buy those new, labor-saving devices. This shift from hand power to animal power, horse drawn machines, was the first American agricultural revolution.

Advances in agricultural techniques and technology continued into the 20th century—the appearance of mechanical power, the internal combustion tractor; hybrid corn; and chemical fertilizers—but change again was slow. Farmers by nature were attuned more to the rhythms of the seasons than the beat of technology.

It took World War II, with its tremendous need to produce more food to feed U.S. troops and civilians and those of our allies, to trigger the second American agricultural revolution.

The production surge during the war marked the beginning of the end of the "good old days" on the farm. When the end of the war freed industry and science to work full time on civilian needs, the farming revolution reached full blossom, and it has been blooming ever since. Yet it was not until 1962 that the U.S. Department of Agriculture stopped publishing data on the number of horses and mules on farms.

Gasoline, and then diesel, tractors displaced horses and mules; chemical fertilizers supplemented organic; hybrid corn became almost universal; combines replaced reapers; and self-propelled combines replaced tractors as machinery got bigger and more efficient. The assembly-line techniques of industry were adapted by farmers to the production of poultry and livestock, using scientifically balanced feeds and controlled environment. Single enterprises produced chickens by the millions and swine and beef cattle by the thousands.

Farming became a business of life as much as a way of life, and today one American farmer produces enough food to feed 80 people. That is 73 more than what one farmer could feed at the turn of the century and 33 more than just 10 years ago.

Similar changes in agriculture have been taking place to one extent or another in most of the world. Subsistence agriculture still exists; animals are still the main source of agricultural power in some areas,

but the developed countries, when they have the arable land, can produce much more than they consume.

"The good old days" on the farm are gone, and there are those who lament this change. But the ability of one farmer to feed more than his or her family and a neighbor or two is worth a lot. It freed a work force for the industrial revolution; the Wright brothers could tinker with a flying machine rather than feed the hogs or plant the wheat; Dr. Jonas Salk could cultivate microbes rather than maize, so polio is no longer the scourge of children; and the list goes on.

Because farmers can produce in surplus, people have been freed from the quest for food to contribute to the well-being of humanity in other ways—in medicine, education, science, industry, nutrition and even government, although to some that may be arguable.

So here we are. Not much more than 100 years after the first American agricultural revolution, the developed countries can produce much more food than they can consume.

This abundance is a blessing, but it is also a problem—to farmers and to their governments. We can't seem to agree on what to do about it, and that has become a global issue. The nations of the world today are in a major way interdependent for food. The volume of world trade in grain alone increased by 100 million tons in the decade of the seventies.

So what happens to farmers in Country A quickly affects Country B and countries C, D and E to one degree or another. Domestic farm policy has global implications. Someone said that if a farmer in North Dakota sneezes, a farmer in India catches a cold.

In approaching farm policy, I think all of us share the same goals for farmers—a stable income with a fair return for their labor and investment. We all want for our countries an assured, dependable food supply achieved as efficiently as possible.

We differ on how to reach these goals.

The European Community uses the Common Agricultural Policy, which was put in place a little over 20 years ago.

The CAP provides high domestic price supports which are protected for the most part by variable levies on farm imports.

Designed to help the community achieve food self sufficiency, the CAP has been more than successful. The EC, once a net importer, has

become a huge net exporter of a number of agricultural items—notably dairy products, wheat, poultry, sugar, beef and apples.

In Japan, where agricultural land is limited, the policy is to maximize self-sufficiency by maintaining farm income at levels equal to those of urban workers, and to develop secure sources of food supplies.

Japan imports the raw materials it needs to maintain a largely specialized, small-scale agriculture, which is supported by internal price and supply stabilization programs and a system of import restrictions.

In my own country, domestic farm programs have been moving away from the rigid controls that were put in place to cope with the agricultural problems of the 1930's.

Since the late 1960's, U.S. farmers have had increasing freedom to produce and market, and they have reached the point where about one-fourth of their income comes from foreign markets. In some crops, such as wheat, over two-thirds of our production must be exported. So it is not surprising that the U.S. objectives in trade policy are to liberalize trade in agricultural products, and this is reflected in our domestic farm policies.

Domestic price supports in the United States are set at levels that relate to the world market. They recognize agriculture's need to be competitive, as well as the need to protect farmers against income disaster.

When production exceeds demand, our policy is to store the surplus, at the same time taking steps to reduce production to bring it into line with demand.

We are doing this today in dairy, grains and cotton.

We have not raised our dairy price supports since 1980. We offered incentives to farmers last year to divert acreage from the production of grains, rice and cotton. This year we have enhanced these incentives by offering to give farmers surplus government-owned grain in exchange for the promise to plant even less of their own crops. We are seeking to freeze our target prices and will reduce some support prices.

The United States, Japan, Brazil, the European Community, Canada, Australia—each country has its own system in an effort to provide the most reliable food supply based on a sound farm economy.

Given the global nature of agriculture, the international effects of these systems are a matter of growing concern.

In the United States, for example, we are concerned that the surpluses resulting from the domestic application of the CAP are exported at subsidized prices. We can't compete with those prices without taking special measures of our own, measures that are contrary to our policy of liberalized trade.

And we would like to see Japan relax its import restrictions on a number of agricultural products, products that Japan could import in far greater quantities than now, to what we believe would be our mutual benefit.

In the United States we realize fully that our desire for long term stability in our farm economy is extremely difficult to achieve, if not totally incompatible with our need to export a large part of our production. Moving a heavy volume of exports into a world market that is buffeted about by a host of significant economic and political factors—changing currency values, fluctuating energy prices, varying domestic farm policies, growing export subsidies, and widespread trade barriers of every description—almost guarantees a heavy degree of instability. And for us, with a farm policy in which we try to establish support price loan levels below world market clearing prices, instability in export markets quickly translates into instability and frequent low prices in our domestic markets.

It is not my purpose here to find fault, or point a finger of blame. Every nation has farm problems of one kind or another. And almost every nation finds, as does the United States, that the attempts of other nations to solve their farm problems are increasingly creating new and difficult problems.

There seems to be a growing tendency to try to maintain high domestic farm prices by protecting against imports, insulating farmers from world market factors, and, where necessary, exporting surpluses with massive government involvement.

The resultant economic distress can be catastrophic for some, especially nations with small treasuries. An example of this can be clearly seen by a penetrating analysis of the world sugar market situation in recent years.

Can this kind of confused world agricultural marketing be allowed to continue, or to expand? I suppose it can, but the logical development

will be a growing dependency upon government treasuries to determine allocation of food and fiber resources throughout the world.

There must be a far better way. Some of us were disappointed that so little progress was made in agriculture at last year's GATT Ministerial meeting. We hope that as we move along in 1983 there will be a greater interest in facing the realities of agricultural trade.

We need to solve these problems and we don't have too much time because the capacity of the world's agricultural plant to outproduce demand will continue to grow.

I believe agriculture—the food system—is on the threshold of technological advances that will outstrip anything we have seen so far. The age of technological application in agriculture has only begun.

Genetic engineering has the potential to improve the efficiency of our crop and livestock production by degrees that are impossible to gauge. Genetic engineering opens the door for breakthroughs that may include:

- New compounds for preventing the most damaging plant and animal diseases.
- Substances to regulate animal and plant growth and reduce the use of scarce inputs.
- Animals with more productive physical and nutritional characteristics.
- New, less expensive methods of producing agricultural inputs.
- And though it is probably some years off, someday we may be able to produce corn that is capable of fixing its own nitrogen from the air. Think of the impact of that accomplishment on petroleum supplies and economies worldwide.

As the gasoline engine revolutionized farming during the 1920-1950 period, new machines are revolutionizing today's agriculture. And the trend toward no-till farming, or conservation tillage, has produced its own equipment. The new methods of tilling in themselves have the potential to control erosion on many soils and preserve soil resources forever.

Potential new uses for agricultural products are being discovered almost daily. What were once weeds are now processed into sophisticated pharmaceuticals; waste products are now animal feed.

Equipment and methods of transporting, handling and retailing food most probably will change dramatically during the next decade. Computers will make a tremendous impact on fuel savings in food distribution, and their use in the transfer of information will affect every aspect of farming—from management and marketing to computer-assisted retail shopping.

Similar advances in transportation and communication outside the food system mean that the world will continue to get smaller. Those people existing on substandard diets will increasingly demand a share of the world's abundance, and they must get consideration.

How long will the world tolerate the paradox that some countries produce too much while others produce only enough for bare survival, or worse?

We can hope that the future of agriculture includes an end to this situation, and there are promising signs. Per capita production of food in developing countries is growing. Their leadership understands better the need to encourage their farmers, and the need to invest in agriculture as the foundation for sound economic growth.

Those of us whose agricultural systems have moved from human-powered, subsistence production, through animal and gasoline power to the threshold of computer-assisted, genetically engineered production and distribution of food know that the farmer remains basic to it all.

Farmers must be encouraged, and they need to be given some protection from extremely bad weather, crop and stock diseases and deep economic disaster as they earn their living in a hazardous business.

We need to protect our farmers, yes, but can we afford to isolate them from change, and for how long?

I'm afraid too many of our farm programs try to do that. Farmers today are producing in a context of global change, but in most cases they are doing it within government systems that are based largely on local concerns.

Technology has changed the world—it is shrinking almost daily—and it has changed agriculture—one person can produce food for 80 people, and we have no idea how many more that farmer will be able to feed 10 years from today. More of this food is shipped between countries than ever before.

If we continue to try to isolate farmers from the consequences of these changes, we can build in and institutionalize serious distortions in the world agricultural market, distortions that will only contribute to increasing instability in global agriculture.

As I suggested earlier, our approaches to farm policy differ, and these differences have been pointed up rather sharply in recent months. So 1983 will be a year of negotiation, and perhaps confrontation, in our attempts to reach agreement. But I hope that in this process, we can make real progress in our understanding of the worldwide nature of agriculture and its marketing problems.

I urge that all who have a role in the formation of agricultural policy make a dedicated effort to understand and be sensitive to the impact their decisions will have not only upon their own farm constituencies but upon people all over the world.

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Testimony

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Statement by Secretary of Agriculture John R. Block before Joint Economic Committee, Jan. 31.

Mr. Chairman, I appreciate the opportunity to appear before your committee today. The agricultural sector is going through a difficult period of adjustment and the near-term outlook is not as bright as I would like. However, in dealing with the current situation, I think it is important to realize that the factors affecting the farm economy are complex, and, for the most part, beyond the direct control of anyone. More importantly, we must begin to face the fact that many of the traditional farm policy tools are too inflexible and not as effective as one would like in dealing with the realities of U.S. agriculture's current position in U.S. and world economies.

Mr. Chairman, in my remarks today I am going to first review the developments which have shaped our current farm problem. I have a few slides which I would like to share with you on this subject. Then I would like to discuss some recent actions taken by President Reagan to put agriculture back on course. Finally, I would like to share a few of my thoughts on the implications of the changing environment in which agriculture finds itself today.

The Evolution of the Current Farm Situation in Perspective

Clearly, the most important factor currently impacting the agricultural outlook is the general economic condition of the world. While many events can impact agriculture, ranging from weather to new technologies, none has the pervasive impact of a global recession. Agriculture became dependent upon exports to sustain its expansion over the past decade and the evolution of that dependence is the basis for the shock waves now being felt throughout the food and fiber system.

The forces that have shaped this increasing interdependency of agricultural conditions and general economic conditions are longer term in nature. A review of these factors underscores the difficulty in

counteracting them or offsetting their effects on farmers in the near term.

Increasing Exports Stimulated Farm Output Expansion

The tight world food situation of the early seventies triggered a decade of expansion by American farmers and increasing reliance on foreign markets, which today account for two out every five acres that our farmers plant.

U.S. farm exports tripled between 1971 and 1981, in response to rapid growth in the world economy and population. Farm exports were also enhanced by the declining value of the U.S. dollar during this period. Our own economy was generally buoyant, producing strong growth in domestic demand, especially for livestock products. Farm prices rose through the seventies and the underlying price support levels were ratcheted upward. These events, coupled with appreciation of the dollar, have elevated the domestic price "floors" beneath grains, cotton, oilseeds, sugar and dairy prices.

With plentiful and easy credit and rising land values during the seventies, farmers found it advantageous to escalate borrowing and make heavy capital investments. Results were dramatic indeed. Between 1971 and 1982, farmers increased the area planted to principal crops—excluding hay—by more than 60 million acres. Heavier input use, availability of yield-boosting technology, and recent ideal weather have pushed yields to new heights. Crop production per acre today is 17 percent above that of a decade ago. The combined effect of expanded crop acreage and rising yields has been to thrust U.S. crop production upward by fully one-fifth over the past decade. Livestock production also expanded, rising by 7 percent over the period.

With rising prices and land values, farmers who borrowed in order to expand their operations tended to earn a better rate of return than those with higher equity. Rapid inflation in recent years fueled additional borrowing to cover annual production expenses. Consequently, farm debt has tripled in the last decade, and interest payments now account for one dollar in every seven that farmers spend for their operation.

This expansion was followed by a period of reduced incomes during the last three years. This has greatly increased the difficulty of making

large adjustments in production in response to current conditions. For example, crop producers who have heavy debt payments to meet and large investments to protect have less flexibility to reduce production. Livestock producers cut output this past year in response to several years of unfavorable returns. Now livestock prices are up and feed prices down. Yet, apparently because many producers are financially strapped, it appears they are much more cautious about gearing up to expand production.

This recent period has also witnessed an unprecedented growth in government expenditures intended as financial support to the sagging farm economy. Commodity Credit Corporation outlays increased from under \$3 billion in FY 1980 to nearly \$12 billion in FY 1982.

Global Demand Has Changed Course

American farmers have become especially vulnerable to fluctuations in world trade and world market prices. For the past several years, U.S. and world crop production has set new records, but global demand for agricultural products has switched from a high-growth path to one of little or no growth.

The world economic problems of the early eighties have had a depressing impact on consumption of agricultural products. For example, during the last two decades, global coarse grain consumption rose on average about 16 million tons per year as diets were upgraded with more animal-product foods. Yet, since 1979/80, growth in meat production has stopped and coarse grain consumption has nearly flattened out. World wheat consumption, which had increased by over 10 million tons annually during the past two decades, has increased by only 10 million tons since 1979/80. Cotton consumption is in a similar situation, since mill use is sensitive to economic conditions. World soybean usage, however, has continued about on trend.

U.S. farm exports dropped for the first time in 13 years during the fiscal year ending in September 1982. Volume dropped 2 percent below the previous exports were hardest hit, dropping by 10 million metric tons and \$3 billion in value.

The sources of strength in our agricultural exports have been eroded by a variety of factors: weak economic conditions throughout the world, financial instability in a number of countries, the strong U.S. dollar,

losses related to the Soviet embargo, continued East-West tensions, unfair trade practices by some of our competitors and restrictive market actions by some of our buyers.

The world is in the grips of recession. The industrial market economies barely grew in 1982, and the U.S. economy declined. Developing countries, important to agricultural trade, grew by about 2.3 percent in 1982, well below the 5.4 percent annual growth rate for 1970-79. Thus, more production is available in the face of weakened demand. As a result, prices have dropped and stocks have accumulated. Trade tensions have heightened and will remain so until the economic situation improves.

U.S. recovery will help stimulate other economies, but the process will take time. The industrial market economies may grow only around 1-1/2 percent in 1983, and developing countries by 3-1/2 percent. But even this stimulus to incomes, and hence demand for farm products, will be tempered by lingering high unemployment levels.

A large number of countries have had financial crises that have forced them to curtail food imports. The financial problems of Eastern Europe and Mexico have been the most devastating to our trade. U.S. grain exports to these markets dropped by over 40 percent (about an 8 million ton reduction) in 1981/82 and have recovered very little in the current season.

Foreign investors, seeking a haven of safety and high interest rates, have been helping drive up the dollar's value. Even though interest rates in the United States have recently dropped, they still offer favorable real returns to foreign investors. With an economic recovery in prospect here, the dollar is not likely to weaken greatly in 1983.

The strong dollar increases the price of our farm products to foreign customers. Over the past year, our farmers have received sharply lower prices, but after accounting for exchange rates, prices importers pay are rising. For example, even though the price of wheat was declining in domestic markets, the price to many foreign purchasers in terms of their currencies grew by 35 percent over the last two years. More importantly in a longer term sense, the dollar appreciation has accelerated the increase in our price floors in the eyes of our customers.

Our share of Soviet grain imports slipped from around 70 percent in the late 1970's to 17 percent following the U.S. embargo with the

Soviet Union in 1980. It recovered to over 30 percent in the past year. The problem of reliability, coupled with continued East-West tensions, continues to cloud our trade prospects with the Soviet Union.

Our farm export markets also are being seriously undercut by unfair competition from the European Community and other nations. The EC has become the second largest exporter of farm products by spending upwards of \$7 billion annually in subsidies. For example, in the Middle East the EC share of the whole chicken import market rose from only 3 percent in 1964 to 46 percent in 1980. During the same period, the U.S. share of the Middle East whole chicken import market declined from 97 percent to 13 percent.

Large Output and Rising Stocks Boost Global Supplies

Following two reduced grain harvests in 1979 and 1980, excellent weather in 1981 pushed world grain production to nearly 1.5 billion metric tons. Larger U.S. crops were an important factor in the global increase. In 1982, with widespread good weather, world grain production surpassed the 1.5 billion ton mark. U.S. grain output topped its 1981 record. Grain production increased in a number of importing countries, especially the Soviet Union and China. Weather also contributed to a sharp jump in world production of oilseeds in 1982, another large sugar crop, and large cotton crops in foreign countries. These weather-related developments will tend to have a negative effect on our trade during the next year.

With consumption of agricultural commodities depressed by deteriorating economic conditions for the last several years, rising production has caused stocks to accumulate sharply, particularly in the United States. We forecast that by the end of the 1982/83 marketing year, world grain stocks are likely to reach about 266 million tons, about 89 million tons higher than two years before. This would be equal to over two months' supply of grain for the world, the highest global stocks-to-use ratio in more than a decade. The measure of food security that these stocks would provide must be balanced against their lopsided distribution, since 155 million tons—or nearly 60 percent—will be located in the United States. These levels of carryover stocks are simply too large for the U.S. to hold. They depress prices no matter how tight free stocks become. We have seen sharp reductions in free stocks in

recent years as the farmer-owned reserve was activated to strengthen markets. However, prices responded very little since domestic and foreign buyers, aware of the large stock overhang, were taking hand-to-mouth inventory positions and delaying purchases until new crop harvest-time pressures could offset any tightening in free stocks.

U.S. stocks of nearly all major commodities are expected to increase dramatically. By the end of the current 1982/83 crop year, compared with two years earlier, our ending stocks of rice and coarse grain will have more than tripled. Cotton stocks will be over three times larger than two years before. Wheat stocks will be half again as large, and U.S. soybean stocks will have risen by over one-fifth.

Clearly, the problems we face involve successive years of large production in the face of weak demand, resulting in the accumulation of huge stocks. Improved price and farm income prospects for future years will require that the necessary steps be taken as soon as possible to get supplies more nearly into balance with demand. It is essential that in taking action that we not fall victim to the temptation of simply legislating near-term prosperity through higher price supports or other rigid non-market actions that have been used in the past. Yielding to such temptation fails to recognize the realities of agriculture today and will only encourage farmers to produce more at a time when the market is strongly signaling the need for less.

Putting Agriculture Back on Course

Agriculture today is undergoing some difficult financial times—farm prices are too low; net farm income is too small; the farm debt is too heavy; and interest rates on existing debts are excessive. These problems constantly highlight the current agricultural news. The Farmers Home Administration is working closely with the American banking community, and with the Farm Credit System, to help farmers during this difficult period. Regardless of what has been said, there have not been massive foreclosures. In fact, during the 1982 lending season, only 844 foreclosures took place. That's 844 out of 270,000 borrowers at Farmers Home. That represents less than half a percent—hardly what you would call massive foreclosures.

Obviously, agriculture's problems are not going to be solved quickly. Indeed, I think it is very important to keep the recent actions taken by

President Reagan and myself in the proper perspective. We are building a foundation upon which agriculture can expect to establish renewed prosperity and more stable economic conditions. This requires an understanding of the realities of the marketplace and the limitations of government involvement.

Farmers' No. 1 market is the domestic commercial market. The condition of that market depends on the strength of the economy. Thus, the first priority of government is to help build and maintain a vibrant, strong and expanding job-making economy.

We have made a good start in the last two years. The 1980 inflation rate of 13-1/2 percent has been cut to about 5 percent. The prime interest rate of 20 percent or more in 1980 has been cut to 11 percent. And every one-point drop in interest rates on the outstanding farm debt has the potential to raise farm income 10 percent. In December, the prices that farmers paid for all commodities—including services, interest, taxes and wage rates—were 3.3 percent higher than a year ago, compared with a 12 percent increase in 1980.

In addition, President Reagan's recent State of the Union Address clearly indicates this administration is willing to work in a bipartisan manner to ensure that significant economic progress is made in the next two years.

Farmers' No. 2 market is the export market. While trade issues have and will continue to occupy a great deal of attention, it is important to remember that economic conditions are still the key factor in our export markets. Here again a strong U.S. economy is an important impetus to renewed economic growth abroad and a recovery in the export market for U.S. commodities.

At the same time, the rules of international trading are set by governments. So our government has a responsibility to help American farmers capitalize on their efficiency by working to keep international agricultural markets competitive; to free up trade restrictions; and to counteract subsidized farm exports where American farmers must compete against foreign treasuries.

Where our government is not successful in freeing up trade, or removing obstacles, or reducing foreign export subsidies, then we need to aggressively protect our markets. We favor using a greater share of our available public funds in aggressive programs to expand exports. On

Jan. 11, the president announced a \$1.2 billion "blended-credit" program—interest free direct export credits blended with government-guaranteed private credit—to expand agricultural exports through lower interest rates on those exports. This is in addition to the three-year \$1.5 billion authorized in late 1982.

More recently, we completed negotiation of a 1 million metric ton U.S. wheat-flour sale arrangement with Egypt. This is a major thrust in our attempt to aggressively compete for the Egyptian flour market—the largest in the world. The U.S. Department of Agriculture will provide, on a competitive bid basis, enough wheat from Commodity Credit Corporation stocks to enable U.S. suppliers to contract for sale and delivery to the Egyptian market at the negotiated price.

All of the problems of U.S. agriculture are not rooted in basic trade issues; and the resolution of such issues will not ensure a return to prosperity for our nation's farmers. But we don't think the American public wants the government to sit by while our farm exports suffer. Every American has a stake in our farm exports, since those exports create a favorable balance of agriculture trade that compensates for our deficits in industrial trade. Our strong favorable balance in agricultural trade benefits every American who uses petroleum or imported consumer goods. Every \$1 billion of agricultural trade creates an additional \$1 billion of U.S. economic activity; that means jobs—35,000 jobs for each additional \$1 billion in exports. The wheat-flour sale will generate \$850 million in additional economic activity and create jobs for over 9,000 people.

President Reagan, in recently signing the Commodity Futures Trading Commission Reauthorization Act, once again reaffirmed his strong policy of supporting farm exports. Our reputation as reliable suppliers in world markets has been tarnished only by past administrations, not by farmers and their ability to produce and be competitive. Provisions in the act firmly establish the sanctity of contracts that many of our foreign buyers had been concerned about in the past. When our foreign customers' ability to buy has been restored by improved economic conditions, the fruits of the president's action will be harvested by our nation's farmers in the form of increased exports.

Until the demand for U.S. products recovers, it is clear that a production adjustment must be made. On Jan. 11, President Reagan announced a Payment-In-Kind Program for 1983 crops of wheat, corn, grain sorghum, rice and upland cotton. The basic concept of the PIK program is that farmers are offered an amount of commodity as payment-in-kind for reducing acreage, over and above the requirements of the acreage reduction and cash land diversion programs already announced for 1983 crops. Indications are that producers are finding the program attractive and significant acreages will be removed from 1983 production. We don't expect to completely liquidate burdensome stocks in 1983/84, but we do see this program as a major step in bringing crop supplies into line with demand.

The PIK program has several appealing and unique features:

- Production can be reduced beyond that expected under the 1983 programs for wheat, corn, grain sorghum, rice and upland cotton, and thus bring supply back into closer balance with demand.

- Stocks can be reduced at the same time that production is cut back, lessening the overhang on the market at harvest next year and enhancing the prospects for a market-led recovery in farm prices and incomes in future years.

- The availability of market supplies will be maintained, signaling to exporters and importers that the United States fully intends to remain reliable and consistent supplier when production adjustments are made. To meet our long-term export and food aid commitments, adequate reserves will be maintained.

- Government outlays for domestic programs—e.g., loan volume, storage payments, deficiency payments—should decline.

- The PIK program, unlike other emergency measures, is self-terminating when excessive stocks have been worked off.

- Farmers will have the same or greater net returns while stocks are being reduced.

- Sound conservation practices will be applied to a larger amount of acreage.

- Storage space problems will be lessened.

This massive land diversion program, the expanded blended-credit program, contract sanctity and government arranged export sales must be kept in focus. They are all building blocks to ensure that agriculture

is in a position to share in the rewards that will come with renewed economic growth in the U.S. and the rest of the world. We may have to take some dramatic and innovative approaches to our current problems, but there should be no doubt in anyone's mind that a strong, market-oriented agriculture with minimum government intervention is the ultimate solution.

We still have some difficult times ahead but I am more optimistic than ever that we have programs in place which are going to permit our farmers to emerge from these difficult years in a strong, competitive position that will ensure a more lasting prosperity. However, we must be careful that in our desire to restore prosperity we recognize agriculture's interdependencies.

Recognizing the Realities Concerning Agriculture

The evolution of the economic conditions in the agricultural sector over the past decade has significantly altered the interdependencies of the sector. At the same time, it has reduced the effectiveness of many of our traditional commodity programs.

Agriculture is an integral part of the U.S. economy. It is vital domestically and to the international interest of the United States. Broadly defined, agriculture is the nation's largest industry with assets equal to about 88 percent of all manufacturing corporations. Agriculture also is the nation's largest employer. The value added to farm products as they flow through the economic system amounts to 20 percent of the gross national product and requires the services of more than 23 million people, or about 22 percent of the labor force.

At the same time, it is a major force in world trade and makes a significant contribution to the U.S. trade balance. The U.S. accounts for 40 percent of world trade in wheat, 58 percent of the trade in coarse grains and 84 percent of the soybean trade. We now export the production from 2 out of every 5 acres we plant.

This expanded role in U.S. and world economies has brought a growing interdependency which we are now only beginning to appreciate. I think factors such as floating exchange rates, the declining value of the dollar, the inflationary spiral of the seventies, and excessive amounts of credit following the major crop shortfalls of the

early 1970's may have let us see only the positive side of this growing interdependency.

Now agricultural supplies are relatively abundant, the dollar has increased relative to other currencies, and world economic growth has become stagnate. We are now seeing the other side of the coin and we are discovering that the traditional measures we have used in the past to rejuvenate the agricultural sector have had limited success. The agricultural economic system no longer has geographic borders that permit action and reaction in a vacuum. It is a dynamic system in which rigidity leads to imbalances. Actions taken in any sector of our economy or the economies of any of the major countries in the world now impact agriculture immediately. These are the realities that we all are beginning to understand more fully.

Examples of my concern over the implications of these realities for farm programs are readily available. The artificial umbrella over world prices that we have created through the persistent upward ratcheting of our domestic support prices during the past inflationary spiral has served to encourage producers in other countries to increase production. This surplus production is then subsidized into the world markets. As long as the total market was expanding and the dollar was declining in value, this did not seem important. Now markets are not growing or are shrinking for a variety of reasons and we are finding it more difficult to keep our agricultural base fully employed. To make sure this does not become a serious issue, producers in this country, as well as around the world, need to receive and respond to market signals to avoid constant swings between surpluses and shortages.

The 1981 farm act mandates that the target prices for wheat, feed grains, rice and cotton be increased each year over the life of the bill. While these increases may have seemed fairly reasonable in the context of the rapid inflation of 1980-81, we have seen dramatic improvement in reducing the rate of inflation. The mandated increases in the target prices now provide incentive for production increases at a time when moderation is needed. Production costs only went up 3 percent in 1982, and many input prices are now actually lower than a year ago.

We must make sure that after stocks are reduced significantly, we do not have price supports and target prices that would get us back into the same situation we are in today. This is the reason we are seeking

authority for the secretary of agriculture to maintain current target prices. We must take every precaution to keep the grains sector from falling into the same situation that dairy is in now.

Dairy is an example of losing touch with our domestic markets through rigid price support levels not sensitive to market conditions. For the last several years, dairy farmers have been responding to rising milk support prices rather than to actual demand levels. The program now costs over \$2 billion per year. They have increased the dairy herd and production per cow in the face of excessive supplies. Now, under pressure to reduce milk output, they have three hard choices: cutting back production, switching to other enterprises, or finding work off the farm. No one likes these choices, but there are no alternatives.

Our farmers want the opportunities that the marketplace can offer, both domestically and internationally. They are willing to take the risks that are inherent in the market if it is free and fair. We must be certain government actions don't distort the signals the market is sending, while at the same time, providing support when the need arises. We are taking some actions now to get agriculture back on course but we don't want to follow the same path that has led us to our current situation.

This is the challenge that faces use over the next few years. With your help, in addition to others, we can get the job done.

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Statement by J. Dawson Ahalt acting deputy under secretary for international affairs and commodity programs before the Senate Committee on Agriculture, Nutrition, and Forestry Subcommittee on Agricultural Production, Marketing and Stabilization Feb. 03.

Mr. Chairman, my colleagues and I appreciate the chance to visit with you and other subcommittee members today to discuss the Payment-In-Kind program. The U.S. Department of Agriculture is giving this program top priority. There seems to be a broad consensus developing that the PIK program is the most effective tool available to deal with the excess supply problem currently facing agriculture.

Last year the Congress did not give us the legislative changes that we sought to implement a PIK program. Given the serious situation

facing farmers, we could not wait another year and let the surpluses build. Thus, we made several changes to operate the PIK program under existing legislative authorities, and announced it Jan. 11. Signup began Jan. 24 and will end March 11. Accordingly, we are not seeking legislative changes at this time. Moreover, since we are already into the second week of signup and farmers in southern states are already planting, any changes would be confusing and counterproductive. We urge that the Congress not move ahead with any legislation that would require us to change the announced program. It would be bad for farmers and bad for the agricultural economy. Therefore, the administration strongly opposes any such changes.

I do not have a lengthy statement. Rather, I propose to submit, subject to your approval, a copy of the fact sheet, the impact analysis and a set of questions and answers relating to the PIK program. I will then be willing to respond to questions concerning the program and will share with you some of the experience we have gained so far.

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News Releases

U.S. Department of Agriculture • Office of Governmental and Public Affairs

CLINT ROBERTS NAMED SPECIAL TRADE CONSULTANT

WASHINGTON, Jan. 28—Clint Roberts, former congressman from South Dakota's 2nd District, has been named a special consultant on international trade matters at the U.S. Department of Agriculture.

Roberts will work in the development of export trading companies and in counter-trade issues in the upper midwest and western states. While in Congress, Roberts was instrumental in the passage of legislation permitting the formation of export trading companies.

"Clint Roberts brings unique qualifications to this important post," said Secretary of Agriculture John R. Block. "His knowledge of trading issues gives him the experience needed to get the job done. And because of his hands-on work in farming and ranching, he has a grassroots knowledge of why his work is so important. He will be a great asset to us as we continue our efforts to gain a equitable share of the world market."

Roberts, a farmer-rancher in the Presho, S.D., area, served as a secretary of agriculture for South Dakota prior to his 1978 election to Congress. He also served three times in the state senate.

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CCC LOAN INTEREST RATE LOWERED TO 8-5/8 PERCENT

WASHINGTON, Feb. 1—Commodity and farm storage loans disbursed in February by the U.S. Department of Agriculture's Commodity Credit Corporation will carry a 8-5/8 percent interest rate, according to CCC Executive Vice President Everett Rank.

The new rate, down from 9 percent, reflects the interest rate charged CCC by the U.S. Treasury in February, Rank said.

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USDA REPORTS COURT ACTIONS ON MEAT ACT VIOLATIONS IN THREE STATES

WASHINGTON, Feb. 1—U.S. Department of Agriculture reports show that courts have taken action against three companies in recent weeks for violations of the federal meat or poultry inspection law. The firms are located in Georgia, Tennessee and Missouri.

Elberton Poultry Co. Inc., Elberton, Ga., pleaded guilty Dec. 7 to a felony charge of transporting in commerce 3,800 pounds of chicken wings that had been contaminated by rodents.

The U.S. District Court for the Middle District of Georgia fined the firm \$10,000. All but \$500 of the fine was suspended. The court also placed the firm on five years' probation.

Gerald Castellow, owner of Highway 20 Processing, a custom meat slaughter plant in Alamo, Tenn., pleaded guilty Dec. 2 to two misdemeanor counts of selling and transporting 300 pounds of pork that had not been inspected by USDA's Food Safety and Inspection Service.

The Federal Meat Inspection Act exempts custom slaughter operations from inspection, but any animals slaughtered or meat prepared under this exemption must be for the personal use of the owner of the meat. According to USDA, Castellow prepared the meat for sale to a restaurant. The U.S. District Court for the Western District of Tennessee placed him on probation for one year.

On Oct. 22, the U.S. District Court for the Eastern District of Missouri permanently enjoined Joseph Lamia, owner of Lamia's Meat Market, a retail grocery store in Dellwood, Mo., from preparing, selling, transporting or offering to sell or transport meat food products requiring USDA inspection unless they have been inspected.

Under the Federal Meat Inspection Act, retail stores engaging in certain processing operations may be exempt from USDA inspection. These operations are limited under the regulations to those traditionally and usually conducted at retail stores and restaurants. Lamia violated the act by engaging in processing operations not permitted in retail-exempt establishments.

USDA inspects meat and poultry sold in commerce to ensure that it is wholesome, unadulterated and accurately labeled.

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NATIONAL FOREST ROADLESS AREAS SUBJECT TO REEVALUATION

WASHINGTON, Feb. 1—National forest roadless areas studied for wilderness potential five years ago now will be subject to reevaluation, according to Assistant Secretary of Agriculture John B. Crowell, Jr.

Crowell said the reevaluation is necessary because of a recent court decision that the environmental statement for the earlier review was inadequate.

The reevaluation will be done as part of the land and resource management plans now being developed by the U.S. Department of Agriculture's Forest Service for each of 120 individual national forest units, Crowell said. Those plans are scheduled for completion in 1985.

Because the court found the previous evaluation process to be legally inadequate, the reevaluation will include roadless areas which were previously recommended for wilderness as well as areas which had not been so recommended.

Activities in the roadless areas will continue under existing plans, pending completion of the forest plans so as to meet program commitments and to assure that jobs dependent on those commitments will continue, Crowell said.

Roadless areas in Colorado, New Mexico, Alaska, Missouri, West Virginia and Indiana will not be reevaluated since they already are covered by specific legislation.

The administration will continue to work with Congress for legislation to declare the roadless area review and evaluation—RARE II—environmental statement to be sufficient nationwide and to release the roadless areas not recommended for wilderness from further wilderness consideration, Crowell said.

He said the administration much prefers a legislative resolution to the question of future uses of roadless areas because of the costs and delays associated with additional reviews.

Crowell said the cost of the review is estimated at between \$15 and \$30 million. He also said the administration is committed to working with Congress on legislation to designate areas appropriate for wilderness as part of the wilderness system.

In January 1979, the Forest Service issued a national environmental statement documenting the results of a review of 62 million acres of

roadless and undeveloped areas within the 190-million-acre national forest system. The purpose of the roadless area review and evaluation—RARE II—was to determine which areas were suitable for wilderness and which should be used for other purposes.

The environmental statement was the basis for recommending that Congress designate 15.1 million acres as wilderness, that about 36 million acres should be managed for multiple uses other than wilderness, and that the remaining 10.8 million acres needed further study before a decision could be made, Crowell said.

Acting on these recommendations, the 96th and 97th Congresses designated wilderness in 11 states. Action still is pending on approximately 7 million acres recommended for wilderness by RARE II in 30 states.

In 1979, California challenged the adequacy of the national RARE II environmental statement as the basis for decisions to manage 46 areas in California for other than wilderness. In October 1982, the United States Court of Appeals for the Ninth Circuit affirmed the lower court decision that the RARE II environmental statement was inadequate.

Crowell said the action announced today will ensure Forest Service compliance with the federal court decision. That decision set a precedent which could be applied nationwide, he said.

Necessary revisions to the land and resource planning regulations will be developed, and Forest Service Chief R. Max Peterson soon will issue instructions to the field on implementing the decision.

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CCC GUARANTEES AVAILABLE FOR SALES OF U.S. FLOUR TO EGYPT

WASHINGTON, Feb. 2—The Commodity Credit Corporation today authorized up to \$117.7 million in guarantees to U.S. exporters for sales of U.S. flour to Egypt, according to Secretary of Agriculture John R. Block.

The guarantees provide up to three-year coverage under the export credit guarantee program.

Under the sale arrangement with Egypt for 1 million metric tons of U.S. flour announced by Block Jan. 18, U.S. exporters may contract with Egyptian authorities for delivery of flour to Egyptian ports on a cost-and-freight basis at \$155 a metric ton of which 77.5 percent (\$120.12) will be eligible for financing under the export credit guarantee program.

U.S. exporters must submit a guarantee fee along with an application to CCC before export is completed. All shipments must be completed by April 30, 1984. The guarantee will cover obligations by the National Bank of Egypt and/or other eligible banks.

The guarantee rates include a charge to provide for annual interest rate coverage of up to 8 percent on the guaranteed value. Exporters may apply for a guaranteed value up to a maximum of 98 percent of the amount eligible for financing.

Based on semiannual repayments of principal, plus accrued interest, the fee rate is 15.6 cents per \$100 for six months; 23.4 cents per \$100 for one year; 39.3 cents per \$100 for two years, and 56.5 cents per \$100 for three years.

Based on equal annual repayments of principal, plus accrued interest, the fee rate is 32.9 cents per \$100 for one year; 50.1 cents per \$100 for two years, and 69.2 cents per \$100 for three years.

Further information is available from Lorraine Potts at (202) 447-3224.

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RICE FARMERS TO RECEIVE \$250 MILLION IN DEFICIENCY PAYMENTS FOR 1982 CROP

WASHINGTON, Feb. 2—Eligible rice producers will be paid an estimated \$250 million in rice deficiency payments for their 1982 crop, according to Everett Rank, administrator of the U.S. Department of Agriculture's Agricultural Stabilization and Conservation Service.

Payments, at the rate of \$2.71 per hundredweight, will go to about 25,000 producers later this month, Rank said.

Deficiency payments are calculated as the difference between the 1982 target price and the 1982 loan rate (\$2.71 per hundredweight) or

the difference between the 1982 target price and the national average price received by farmers during the first five months of the rice marketing year (Aug. 1 through Dec. 31, 1982), whichever is less.

The five-month average price reported Jan. 31 by USDA's Statistical Reporting Service in its agricultural prices report was \$7.69 per hundredweight. The deficiency payment rate was therefore based on the difference between the 1982-crop target price of \$10.85 and the \$8.14 loan rate.

Eligible producers have been permitted to receive 70 percent of their 1982 estimated deficiency payments in advance. Producers now may request the remaining 30 percent or their total payment if no advance had been requested.

Payment application forms and further information are available at local offices of the Agricultural Stabilization and Conservation Service, Rank said.

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USDA RELEASES COST OF FOOD AT HOME FOR DECEMBER 1982

WASHINGTON, Feb. 2—The U.S. Department of Agriculture today released its monthly update of the weekly cost of food at home for December 1982.

USDA's Human Nutrition Information Service computes the cost of food at home for four food plans—thrifty, low-cost, moderate-cost and liberal.

Esther Winterfeldt, administrator of the Human Nutrition Information Service, said the plans consist of foods that provide well-balanced meals and snacks for a week.

USDA assumes all food is bought at the store and prepared at home. Costs do not include alcoholic beverages, pet food, soap, cigarettes, paper goods and other nonfood items bought at the store.

"USDA costs are only guides to spending," Winterfeldt said. "Families may spend more or less, depending on such factors as where they buy their food, how carefully they plan and buy, whether some

food is produced at home, what foods the family likes and how much food is prepared at home.

"Most families will find the moderate-cost or low-cost plan suitable," she said. "The thrifty plan, which USDA uses to set the coupon allotment in the food stamp program, is for families with less money for food. Families with unlimited resources might use the liberal plan."

Details of the four food plans are described in Home and Garden Bulletin No. 94, "Family Food Budgeting. . .for Good Meals and Good Nutrition," which may be purchased for \$2.50 each from the Superintendent of Documents, Government Printing Office, Washington, D.C. 20402.

Cost Of Food At Home For A Week In December 1982

	Plans		
	Thrifty	Low-cost	Moderate-cost
Families:			
Family of 2 (20-54 years)	\$33.70	\$43.60	\$54.60
Family of 2 (55 years and over)	30.40	38.80	48.10
Family of 4 with elementary school children	57.70	74.00	92.60
Individuals in four-person families:			
Children:			
1-2 years	7.80	9.80	12.10
3-5 years	9.40	11.70	14.50
6-8 years	12.00	15.30	19.10
9-11 years	15.10	19.10	23.90

Cost Of Food At Home For A Week In December 1982—*continued*

		Plans	
	Thrifty	Low-cost	Moderate-cost
Females:			
12-19 years	14.20	18.10	22.40
20-54 years	13.70	17.70	22.00
55 and over	12.50	16.00	19.70
Males:			
12-14 years	16.00	20.30	25.30
15-19 years	17.60	22.30	28.00
20-54 years	16.90	21.90	27.60
55 and over	15.10	19.30	24.00

- To estimate your family food costs
- For members eating all meals at home—or carried from home—use the amounts shown.
 - For members eating some meals out, deduct 5 percent from the amount shown for each meal not eaten at home. Thus, for a person eating lunch out five days a week, subtract 25 percent, or one-fourth the cost shown.
 - For guests, add 5 percent of the amount shown for the proper age group for each meal.
- Costs in the second part of the chart are for individuals in four-person families. If your family has more or less than four, total the "individual" figures and make these adjustments, because larger families tend to buy and use food more economically than smaller ones:
- For a one-person family, add 20 percent.
 - For a two-person family, add 10 percent.
 - For a three-person family, add 5 percent.
 - For a family of five or six persons, subtract 5 percent.
 - For a family of seven or more, subtract 10 percent.

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1982-CROP COTTON DEFICIENCY PAYMENT RATE ANNOUNCED

WASHINGTON, Feb. 2—The deficiency payment rate for the 1982 crop of upland cotton will be 13.92 cents per pound, the maximum permitted by law, according to Everett Rank, administrator of the U.S. Department of Agriculture's Agricultural Stabilization and Conservation Service.

Rank said USDA estimates currently indicate 1982 cotton deficiency payments will total about \$550 million.

Deficiency payments are required under the 1982 upland cotton program because the average market price received by farmers during calendar year 1982 is below both the 1982 loan rate of 57.08 cents per pound and the established target price of 71 cents per pound.

The 1982 national weighted average market price for upland cotton reported Jan. 31 in USDA's agricultural prices report was 55.2 cents per pound. Normally, the deficiency payment rate would be equal to the difference between the target price and the average market price. However, the payment rate legally cannot exceed the difference between the target price and the loan rate for the basic grade of upland cotton.

Since the calendar year average market price is less than the loan rate, the 1982 payment rate is the difference between the target price and the loan rate, Rank said.

Producers who participated in the 1982 upland cotton acreage reduction program are eligible to receive deficiency payments on a number of pounds equal to their cotton planted acres times their farm program payment yields.

Advance deficiency payments equal to 70 percent of the estimated total were made available to producers upon request in late November and December of 1982. The Agricultural Stabilization and Conservation Service will begin making the balance of the 1982 deficiency payments later this month, Rank said.

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USDA EXTENDS MATURITY DATE ON 1981-CROP SOYBEAN LOANS

WASHINGTON, Feb. 3—Producers with 1981-crop soybean loans that matured at the end of January or will mature later now have the option of extending their loans an additional six months, a U.S. Department of Agriculture official said today.

Everett Rank, administrator of USDA's Agricultural Stabilization and Conservation Service, said USDA is allowing extended loans so farmers will have the option of holding their soybeans for possibly higher prices later in the year. Without today's action, Rank said, farmers would be required to either sell their soybeans to repay their price support loans or to turn their crops over to USDA's Commodity Credit Corporation in lieu of repayment.

Producers who extend their loans for the additional six months will be charged interest at the rate applicable to the loan, he said. This interest rate reflects the cost to CCC of borrowing from the U.S. Treasury.

Producers who wish to extend their loans should contact their county Agricultural Stabilization and Conservation Service office, Rank said.

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USDA AGENCY LISTS THIS YEAR'S 'MOST WANTED' CONSERVATION RESEARCH NEEDS

WASHINGTON, Feb. 3—What the U.S. Department of Agriculture's Soil Conservation Service wants most from research this year is more information on the relationship between erosion and soil productivity.

This was announced today by Peter C. Myers, chief of the soil conservation agency, in a list of the agency's "most wanted" research answers to soil erosion and other resource management problems. He said he has sent the list to state and federal agricultural research facilities.

Second choice, he said, is conservation tillage research, including ways to control a number of troublesome weeds.

Also on the agency's "most wanted" list are:

- Ways to predict soil losses through concentrated flow channels that form when eroded rills are joined.
- Crop production systems for areas with limited water supply.
- Determination of net economic benefits of conservation practices.
- Better, lower-cost methods of gully control.
- Data on the broad effects of new grazing systems, including short duration and cell grazing systems.
- Ways to predict soil erosion on rangeland.
- Social and economic factors affecting the adoption of conservation practices.
- Improved spillway designs.
- Accelerated water quality research.

The report also identifies three priority needs in the field of extension and technology transfer: Accelerate extension efforts to promote conservation tillage; analyze potential uses of microcomputers for technology transfer in USDA; and encourage more use of warm season perennial grasses in areas of predominately cool-season plants to improve forage and livestock production systems.

Besides the 14 priority needs, about 130 other needs are described in the report, as well as more than 200 accomplishments of research and extension agencies.

"We hope that research and extension administrators, scientists and specialists will use this report as a basis for continuing dialogue with USDA Soil Conservation Service specialists and program leaders for support and guidance," Myers said.

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